

Message Text

LIMITED OFFICIAL USE

PAGE 01 OTTAWA 09387 01 OF 02 272127Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 PA-01 PRS-01 /083 W
-----067181 272156Z /66

R 272114Z OCT 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 5181
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

LIMITED OFFICIAL USE SECTION 01 OF 02 OTTAWA 09387

USEEC

USOECD

DEPT. PASS CEA, TREAS, FRB

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: RECENT ECONOMIC DEVELOPMENTS

REF: OTTAWA 8684

1. SUMMARY. THE STATE OF THE CANADIAN ECONOMY ON EVE OF
MINI BUDGET ANNOUNCEMENT CLEARLY DEMONSTRATED NEED FOR
INFUSION OF CONFIDENCE FINANCE MINISTER CHRETIEN ATTEMPTED
TO IMPART ON OCTOBER 20. ALTHOUGH REAL DOMESTIC PRODUCT
ROSE IN AUGUST, TRENDS IN PRODUCTION, INVESTMENT AND EMPLOY-
MENT CONTINUE TO BE WEAK. SLIDE IN CANADIAN DOLLAR, WHILE
APPROPRIATE, HAS NOT HELPED CONFIDENCE. CAPITAL MARKETS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OTTAWA 09387 01 OF 02 272127Z

SOFTENED IN WEEK ENDING OCTOBER 14 AND INTEREST RATES HAVED
FIRMED. PROVINCE OF QUEBEC BOND ISSUE RECEIVED RATHER COOL
RECEPTION IN EUROMARKET. CANADIAN AUTO TRADE DEFICIT WITH
U.S. INCREASED OVER FIRST EIGHT MONTHS OF THIS YEAR. END
SUMMARY.

2. CANADIAN ECONOMY CONTINUED SOFT ON EVE OF CHRETIEN'S

ANNOUNCEMENT OF MINI BUDGET OCTOBER 20. INDUSTRIAL PRODUCTION WAS FLAT IN AUGUST (INDEX STOOD AT 123.7) AFTER 1.1 PERCENT FALL IN JULY. MANUFACTURING OUTPUT FELL BY 0.8 PERCENT WITH ESPECIALLY STRONG DROP (MINUS 2 PERCENT) REGISTERED IN DURABLE MANUFACTURING INDUSTRIES. OUTPUT OF TRANSPORTATION EQUIPMENT FELL BY 9.4 PERCENT. SIGNIFICANT INCREASES RECORDED IN MINES, QUARRIES AND OIL WELLS (4.6 PERCENT), TOBACCO PRODUCTS (4.5 PERCENT) AND IN PRIMARY METALS INDUSTRIES (6.5 PERCENT).

3. DECLINE IN MANUFACTURING OUTPUT FOR SECOND MONTH RUNNING IMPLIES FURTHER WIDENING OF EXCESS CAPACITY AND DEMAND CONTINUES TO BE WEAK. NEW ORDERS FELL IN JULY AFTER SMALL RISE IN JUNE. SHIPMENTS IN MANUFACTURING INDUSTRIES INCREASED ONLY 0.6 PERCENT IN JULY FOLLOWING 2.5 PERCENT RISE IN JUNE AND SHIPMENTS OF DURABLES RECORDED DECLINE. IN ITS THIRD QUARTER SURVEY OF BUSINESS ATTITUDES, CONFERENCE BOARD CONCLUDES THAT BUSINESSMEN APPEAR LESS OPTIMISTIC ABOUT NEAR-TERM ECONOMIC PROSPECTS THAN THEY WERE THREE MONTHS AGO. IN SURVEY, WEAK FINAL DEMAND WAS IDENTIFIED AS KEY FACTOR INHIBITING PRODUCTION LEVELS. THUS, OUTLOOK FOR MACHINERY AND EQUIPMENT INVESTMENT REMAINS LESS THAN BUOYANT.

4. CONSTRUCTION ACTIVITY IS DEPRESSED AS WELL. STATISTICS COMPILED BY SOUTHAM BUSINESS PUBLICATIONS SHOW TOTAL VALUE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OTTAWA 09387 01 OF 02 272127Z

OF CONSTRUCTION CONTRACT AWARDS IN AUGUST WAS C DOLS 1.2 BILLION, DOWN 1 PERCENT FROM AUGUST, 1976. LARGEST DECLINE OCCURRED IN QUEBEC (MINUS 22 PERCENT) WHILE VALUE OF CONTRACTS ROSE 22 PERCENT IN ATLANTIC PROVINCES. CONSTRUCTION ACTIVITY ROSE IN INDUSTRIAL SECTOR, BUT INCREASE WAS LARGELY IN UTILITIES WHILE DECLINE OCCURRED IN MANUFACTURING. CUMULATIVE TOTAL VALUE OF CONSTRUCTION AWARDS WAS C DOLS 9.6 BILLION IN 1977 COMPARED WITH C DOLS 9.2 BILLION LAST YEAR.

5. RATHER DEPRESSED STATE OF PRODUCTION AND INVESTMENT SPENDING IS REFLECTED IN FIRMS' HIRING INTENTIONS. SURVEY OF FOURTH QUARTER HIRING INTENTIONS BY MANPOWER TEMPORARY SERVICES OF TORONTO INDICATE THAT 14 PERCENT OF 900 FIRMS COVERED PLAN TO REDUCE EMPLOYMENT IN FOURTH QUARTER COMPARED WITH 6 PERCENT GIVING THIS RESPONSE FOR THIRD QUARTER. PERCENTAGE OF FIRMS EXPECTING INCREASED HIRING FELL FROM 27 PERCENT TO 20 PERCENT BETWEEN THIRD AND FOURTH QUARTERS. STATCAN'S HELP WANTED INDEX DECLINED TO 147 IN THIRD QUARTER FROM 150 IN SECOND QUARTER. INDEX HAS DECLINED IN EVERY QUARTER THIS YEAR. STATCAN FIGURES SHOW 5 PERCENT INCREASE IN JOB VACANCIES BETWEEN FIRST AND

SECOND QUARTERS OF THIS YEAR, BUT VACANCIES PER THOUSAND JOBS WERE CONSTANT (AT SIX) AT SECOND QUARTER LEVEL AND BELOW THIRD QUARTER 1976 LEVEL.

6. GLIMMER OF HOPE APPEARS IN AUGUST RETAIL SALES FIGURES. SEASONALLY ADJUSTED RETAIL SALES WERE C DOLS 5.25 BILLION IN AUGUST, UP 5.2 PERCENT FROM JULY AND 9.8 PERCENT FROM AUGUST, 1976. MONTH TO MONTH INCREASE IN AUGUST WAS LARGEST SINCE DECEMBER, 1976. NEVERTHELESS, PRICE RISES PROBABLY ACCOUNT FOR MUCH OF INCREASE IN VALUE.

7. AUTO INDUSTRY IS ANOTHER RELATIVELY BRIGHT SPOT IN

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OTTAWA 09387 02 OF 02 272133Z

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05

CEA-01 PA-01 PRS-01 /083 W

-----067442 272158Z /66

R 272114Z OCT 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 5182

INFO AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMCONSUL MONTREAL

ALL OTHER CONGENS IN CANADA POUCH

LIMITED OFFICIAL USE SECTION 02 OF 02 OTTAWA 09387

OTHERWISE SOMBER PICTURE. INDUSTRY CLOSED 1977 MODEL YEAR IN SEPTEMBER WITH 25 PERCENT INCREASE IN SALES OVER SEPTEMBER, 1976. SALES OF NORTH AMERICAN BUILT CARS TOTALLED 49,819 UNITS COMPARED WITH 38,849 UNITS LAST SEPTEMBER, WHILE TRUCK SALES JUMPED 26 PERCENT TO 20,576 UNITS OVER SAME PERIOD. HOWEVER, ACCORDING TO STATCAN FIGURES, CANADIAN AUTO TRADE DEFICIT WITH U.S. CAME TO C DOLS 790 MILLION IN FIRST 8 MONTHS OF 1977 COMPARED WITH DEFICIT OF C DOLS 537 MILLION IN SAME PERIOD LAST YEAR. COMBINED DEFICIT IN PARTS (C DOLS 1.8 BILLION) AND ENGINES (C DOLS 130 MILLION) MORE THAN OFFSET C DOLS 1.2 BILLION SURPLUS IN ASSEMBLED VEHICLES. AUTOMOTIVE PARTS MANUFACTURERS ASSOCIATION HAS CALLED FOR FEDERAL LOAN PROGRAM TO ASSIST

PARTS MANUFACTURERS TO MODERNIZE AND RATIONALIZE PARTS
PRODUCTION. -

8. REAL DOMESTIC PRODUCT (RDP) INCREASED BY 0.4 PERCENT
IN AUGUST AFTER 0.24 DECLINE IN JULY. MANUFACTURING OUT-
PUT FELL 0.8 PERCENT WHILE CONSTRUCTION ACTIVITY WAS OFF
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OTTAWA 09387 02 OF 02 272133Z

BY 2.3 PERCENT. RDP LESS AGRICULTURE ROSE BY 0.4 PERCENT,
BUT TOTAL OUTPUT IN GOODS PRODUCING INDUSTRIES RECORDED
0.3 PERCENT DECLINE.

9. CAPITAL MARKETS. SLIDE IN CANADIAN DOLLAR ENTRAINED
WEAKENING OF SECURITIES PRICES AND CONSEQUENT FIRMING OF
INTEREST RATES. DEALING RATE AT 30 DAYS, WHICH TWO WEEKS
AGO WAS AT 7.12 PERCENT, FINISHED WEEK ENDING OCTOBER 14
AT 7.25 - 7.30 PERCENT. ONE YEAR RATE WAS AS LOW AS 7 5/8
PERCENT THREE WEEKS AGO, BUT ROSE TO 8 PERCENT IN WEEK
ENDING OCTOBER 14. PRINCIPLE STABILIZING FACTOR IN BOND
MARKET HAS BEEN STRONG DEMAND FOR SOME HIGH QUALITY ISSUES,
PRIMARILY THOSE OF GOC. LATEST ISSUE OF CANADIAN SAVINGS
BONDS (CSB)(WHICH YIELD 8.06 PERCENT TO MATURITY) EXPECTED
TO BE POPULAR WITH INVESTORS. THIS PROSPECT HAS LED
CAISSE POPULAIRE DESJARDINS OF QUEBEC TO LAUNCH "BONUS
ACCOUNT", OFFERING 10.4 PERCENT PER ANNUM, DESIGNED TO
HELP REDUCE EXPECTED DRAIN OF FUNDS FOR PURCHASE OF CSB'S.

10. LATEST BOND ISSUE OF PROVINCE OF QUEBEC RECEIVED COOL
RECEPTION IN EUROMARKET. PROVINCIAL GOVERNMENT HAD ORIGI-
NALLY INTENDED TO RAISE C DOLS 75 MILLION, BUT AMOUNT WAS
CUT BACK TO C DOLS 60 MILLION. MOREOVER, ISSUE SOLD AT
SUBSTANTIAL DISCOUNT RAISING EFFECTIVE YIELD TO 9.12 PER-
CENT FROM INITIALLY PLANNED 9 PERCENT COUPON. WEAKNESS
OF CANADIAN DOLLAR COMBINED WITH CONTINUED POLITICAL UNCER-
TAINTY IN PROVINCE ACCOUNT FOR INVESTORS'RELUCTANCE. ENDERS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, REPORTS, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 27-Oct-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977OTTAWA09387
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770395-0605
Format: TEL
From: OTTAWA USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771015/aaaaamnv.tel
Line Count: 209
Litigation Code IDs:
Litigation Codes:
Litigation History: Hold (001 Tobacco) added on 4/16/2009 3:39:05 PM by WASHDCMcGoldRJ, Hold (001 Tobacco) removed on 4/16/2009 3:45:00 PM by WASHDCMcGoldRJ (Litigation Hold Lifted)
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 986b0426-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 OTTAWA 8684
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 769950
Secure: OPEN
Status: NATIVE
Subject: RECENT ECONOMIC DEVELOPMENTS
TAGS: ECON, EFIN, CA
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/986b0426-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009